Investors are “voting with their feet” on costs

Investors in low-cost funds are keeping more of what they pay for.

The message from investment research is clear: Don’t assume that you’ll get more if you pay more. You can’t control the markets, but you can control the amount you pay to invest. Lower costs allow you to keep a greater share of an investment’s return.

Over the ten-year period ended December 31, 2015, low-cost funds outperformed high-cost funds. So it’s not surprising that investors frequently say that fees are an important consideration when buying a mutual fund.

For more than ten years, investors have been favoring low-cost equity funds.

Investors are increasingly gravitating toward low-cost options. The equity funds with expense ratios in the lowest quartile attracted $611 billion over the last 15 years, while funds with higher expense ratios suffered net outflows.

Notes: Expense-ratio quartiles were calculated annually. Each quartile represents 2015 asset-weighted average expense ratios, determined by multiplying annual expense ratios by year-end assets under management and dividing by the aggregate assets in each quartile. Data are as of December 31, 2015.
Sources: Vanguard calculations, based on data from Morningstar, Inc.

Investors’ preference for low-cost bond funds is clear.

Roughly 93% of net cash flows into taxable bond funds went to low-cost options.

By “voting with their feet,” investors in both equities and bonds are showing they’ve clearly received the low-cost message.

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Over time, lower costs have meant higher net returns

Difference between median funds in lowest and highest cost quartiles

Investors in low-cost equity funds

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Sources: Vanguard calculations, based on data from Morningstar, Inc.

Investors are choosing low-cost bond funds

Roughly 93% of net cash flows into taxable bond funds went to low-cost options.

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Sources: Vanguard calculations, based on data from Morningstar, Inc.
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